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JAPAN'S FISCAL POLICY: WHEN THE GOING GETS TOUGH . . .

Summary

Having achieved in FY 1990 the objective of eliminating new issues of deficit-financing bonds, Japanese government planners are reorienting fiscal policy to meet new challenges and priorities. Just as Japanese fiscal policy embarks in new directions, however, slower domestic economic growth and growing foreign policy demands appear ready to complicate, if not upset, Tokyo's carefully laid plans.

Overview

For most of FY 1990, which ended March 31, Japan's fiscal policy followed the path of selective austerity laid down at the beginning of FY 1987; this paired moderate increases in discretionary general account spending with a rapid reduction of new borrowing. This combination of stimulative and contractive measures has limited the public sector's role in overall economic growth in recent years. Nevertheless, Tokyo still is able to influence economic activity in specific areas by selectively reallocating general account funds. The supportive role of the Fiscal Investment and Loan Program continues to grow under the dual demands of greater public works spending and bigger foreign aid budgets.

General Account Expenditures - Since FY 1986 the clamp of fiscal austerity has been loosened gradually and fitfully as can be seen from Table 1. The overall growth of general account spending has outpaced the nominal expansion of gross national product for the last four fiscal years and almost surely will do so again in FY 1991. As Table 2 shows, however, much of the growth has come from mandatory payments -- transfers to local governments and interest costs on

the national debt. The expansion of discretionary outlays has been moderate, surpassing the rate of inflation but falling short of overall economic growth since FY 1987. (Japan's contribution to the multinational forces allied against Iraq makes FY 1990's revised budget an exception.) While the initial increase slated for FY 1991 general account spending is below that of the previous year (6.2 percent versus 9.7 percent), discretionary spending is set to rise faster in the current fiscal year than initially planned in FY 1990 (5.3 percent compared to 3.7 percent). Thus, the "austerity/expansion" spending pattern initiated in FY 1987 continues.

One tool for austerity went into effect in FY 1986. As part of its campaign to balance the budget, the Ministry of Finance that year implemented an informal rule under which every government agency faced a cap on capital outlays and a requirement to reduce by 10 percent its current operating costs. The patchwork of increases and decreases over time for the various expenditure categories in Table 1 indicates the success or failure of hard budget negotiations between MOF and other agencies in every budget cycle. The Finance Ministry has proved tough but not inflexible: no budget item has been cut consistently. Nevertheless, few items have escaped MOF's rule unscathed.

Another source of variation in funding has political roots. Defense and foreign aid have enjoyed a charmed life because of strong foreign pressure for greater Japanese spending in these areas. Defense outlays have expanded by an average annual rate of 6 percent, while economic cooperation has been granted increases of 8 percent or more since FY 1987. When political aegis has waned, sharp funding shifts have resulted. Agricultural price supports, for example, were safe until domestic and outside pressures in the late 1980s led to cutbacks in funding. Energy programs, out of favor in the mid-1980s, have recaptured Tokyo's attention following the Persian Gulf crisis. While foreign pressure may tip the balance of budget negotiations in a category's favor, it is not sufficient to guarantee growth. The budget for public works, for example, shows large swings despite steady American pressure on Tokyo to spend more for roads, bridges and other infrastructure.

The projected leap in the cost of servicing the national debt in the current fiscal year is good news in disguise. The first real fruit of Tokyo's decade-long battle to balance the budget occurred in FY 1990 when debt service showed an initial jump of 22.5 percent over the previous year. Although FY 1991's projected increase of 10.8 percent is well below the year-earlier increase, the true interest payment component is expected to rise moderately for the second year in a row to about Y13 trillion ($96.3 billion at Y135=$1.00). The excess allocation, a little under Y3 trillion ($22.2 billion), will be used to reduce the huge amount of outstanding national bonds.

Japan's nearly $9 billion contribution to the U.S.-led multinational forces that ended Iraq's occupation of Kuwait provides a unique twist to both the FY 1990 and the FY 1991 budgets. The majority of funds for the contribution were appropriated in FY 1990 via a second supplementary budget, but the political pact that ensured passage of the controversial package stretched into FY 1991. The initial budgets for defense spending, reserves and administrative

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expenses in the current fiscal year were cut sharply to help fund the support package. The cuts were unusual because they were made after, rather than before, the cabinet approved the FY 1991 spending plan. (The budget normally is transmitted to the Diet immediately after cabinet approval.) The separation of an expenditure and its financing provisions into two fiscal years also is highly unusual, particularly in this case where at least part of the revenue to fund the outlay is to be collected well after the expenditure. To prevent a skewed analysis of budget trends, MOF has tried to keep the Persian Gulf contribution and its related funding measures separate from standard appropriations.

General Account Revenues - The revenue plan shown in Table 3 shows that, for the second year in a row, the government will finance operating expenses out of taxes and other revenue sources and borrow only to fund capital expenditures. Eliminating new issues of deficit-financing bonds became a target of fiscal policy in 1982, and the downward trend of deficit bond issues since FY 1986 is clear. Either extraordinary demands for funds, such as for the Persian Gulf situation, or lower economic growth (and therefore lower tax revenue growth), or both, may force the government to reassess its firm stand against borrowing to fund current outlays.

MOF has been less successful in achieving another goal, reducing the role of direct taxes in the composition of revenues (Table 3). Direct taxes, which generated 54.5 percent of all receipts in FY 1987, are expected to account for 66.9 percent of total revenues in FY 1991. Fiscal analysts feel that individual and corporate income taxes concentrate the tax burden unfairly. Specific indirect taxes can be targeted with greater precision and have less apparent psychological impact on taxpayers than direct levies, they say.

Until last year the strength of the Japanese economy was the major reason direct taxes continued to provide an increasing proportion of revenues; corporate taxes, in particular, expanded much faster than the government anticipated, thanks to buoyant demand at home. But a close look at Table 3 shows that revenues from the controversial consumption tax, which was supposed to reverse the increasing reliance on direct taxes, continue to run well below projected levels. According to the Ministry of Finance, consumption tax collections for the first eleven months of FY 1990 reached merely 47.6 percent of the year's projected total of Y4.9 trillion ($36.3 billion). Although this is a distinct improvement over FY 1989, when collections for the same period came to only 16.9 percent of the estimated annual total, MOF analysts point to continued difficulties enforcing the tax and to loopholes for smaller firms as the causes of the shortfall. Reforming the tax has lost its political heat over the two-plus years of its existence but remains a bone of contention between the ruling Liberal Democratic Party and opposition parties (see JEI Report No. 15B, April 19, 1991).

Table 3 also indicates that MOF is making little progress toward addressing questions of tax equity in the FY 1991 budget. Individuals instead of businesses again are expected to bear more of the tax burden, a development counter to the consumer-oriented policies advanced by the government in the late 1980s. Personal income taxes are charged with providing 54.7 percent of direct tax revenues in FY 1991, up from the most recent low of 46.7 percent in FY 1988 and just under FY 1986's figure of 55.6 percent. At the same time the share of corporate taxes, which contributed 48.8 percent of direct tax revenues in FY 1988, is projected to fall in FY 1991 to 40.9 percent because of the slowing economy.

The forecasts for FY 1991 also show that individuals paying self-assessed income taxes are expected to contribute less to personal income tax revenues than in FY 1990 -- 21.9 percent versus 24.9 percent. Conversely, people having taxes withheld will see their share rise from 75.1 percent to 78.1 percent. Despite a projected 6 percent drop in FY 1991 withholding revenue, bureaucrats and politicians are acutely aware that the average wage and salary earner already despises a tax system that allows the self-employed (politically powerful farmers, small shop owners and professionals among them) to avoid taxes.

Fiscal Investment and Loan Program - Japan's FY 1991 capital budget will set a record for overall spending for the sixth straight year (see Table 4). Outlays will amount to more than one-half (52.3 percent) of initial general account spending for the third straight year. It should be noted, however, that FILP expenditures in the current fiscal year probably will fall below the 50 percent mark when the supplemental budget is taken into account, just as they did in the previous two fiscal years. Nevertheless, FILP spending in FY 1991 once again will grow at a faster rate than general account outlays after falling behind in FY 1990.

The allocation of FILP monies in FY 1991 reads almost like a carbon copy of FY 1990. Funds for housing and foreign aid continue to increase at a fast pace, an outgrowth of the government's commitment to increase Japan's social overhead capital and bolster help for developing countries. The fast-growing category of "cash management" also deals with the public works area since much of the money flows into special construction projects. Other public works-related spending categories -- social infrastructure, land conservation, roads and regional development -- show much more modest growth. Unlike last year only one category -- transportation and communications -- shows a cutback, and a severe one at that. Welfare-oriented spending received a major boost for the second straight year, in line with an expected increase in the number of senior citizens over the next decades.

An analysis of FILP funding sources reveals some interesting developments. First, the pipeline between the general account and the FILP budgets -- the Industrial Investment Special Account -- appears to have stabilized after being constricted for several years. MOF seems intent on holding to a minimum this transfer from the general account; this category now comprises less than 0.2 percent of total FILP revenues. In contrast, the role of funds controlled by the postal system is expected to expand sharply in FY 1991. Postal savings and life insurance monies will account for 40.4 percent of all FILP revenues in FY 1991, close to FY 1989's high of 40.8 percent and substantially ahead of FY 1990's pool, which accounted for 36.2 percent of revenues. Contributions to the government-run pension fund and other government trust monies will remain the single-largest source of FILP revenues in FY 1991 at 54.4 percent, although this is down slightly from FY 1990's 58.1 percent mark. Government control of the major sources of FILP funds does not assure stability. In fact, the FILP's funding structure will be greatly affected by MOF's advancing program of financial liberalization, which will inject profit motives into a system that traditionally has spurned them.

Something Old, Something New . . .

Able to claim success at addressing several long-standing fiscal goals, Tokyo has forged new ones:

• Balancing the Budget - A sharp decline in government borrowing and an associated effort to hold construction bond issues in check is obvious from Table 5. The total budget deficit as a proportion of general account expenditures shrank from a high of 35.4 percent in FY 1979 to just 10.5 percent in FY 1990, a figure that is based on revised budget numbers and that includes the special Persian Gulf appropriation. Particularly impressive progress in trimming the deficit has been made since FY 1987. MOF's new benchmark is to reduce total bond issues to less than 5 percent of overall general account revenues by FY 1995. Since borrowing is expected to account for only 7.6 percent of total revenues in FY 1991, this goal should be easily attainable.

• Reducing the Size of Public Debt - To reduce debt service costs (which take up fully one-fifth of general account funds) the Finance Ministry has begun to focus on reducing the outstanding national debt. The government's success at weaning itself from borrowing to finance current operations in the late 1980s plus robust economic growth during that period helped push down the ratio of outstanding debt to nominal gross national product. The FY 1986 high of 43.4 percent fell to 37.2 percent in FY 1990 (see Table 6). By appropriating extra money under the debt service line item (as it did in FY 1990 and FY 1991), MOF is attacking the problem directly by buying back bonds before the end of their 60-year limit.

Such an approach also will forestall new issues of refinancing bonds that otherwise would be needed to pay off maturing bonds issued in the 1980s. Refinancing bonds still are an improvement over the original notes, even though current interest rates are near the levels of the early 1980s. Tokyo saves about Y650 billion ($4.8 billion) over the life of a bond issue for every percentage point difference between the rate of return on the original bond and the refinancing bond that replaces it.

• Fiscal Austerity - MOF would like to restrain the growth of overall government spending to less than the rate of nominal GNP expansion. Increases in nondiscretionary spending are likely to keep this goal out of reach. While the mountain of outstanding debt eventually may be whittled down to the point where debt service costs can be reduced, the other main component of nondiscretionary spending -- transfers to local governments -- is mandated by law and reacts only to the growth or shrinkage of tax revenues. Booming central government tax revenues in the late 1980s meant that more had to be funneled back to local authorities. Technically it is possible for Tokyo to adjust the revenue-sharing formula, but such a move also is politically unthinkable. After varying degrees of austerity throughout the 1980s, it is not clear how much more can be pared from such budget areas as administrative costs before government services begin to suffer.

• Public Works Spending - As specified in the Structural Impediments Initiative talks with the United States, Tokyo agreed to budget Y430 trillion ($3.2 trillion) for public works spending over the FY 1991-FY 2000 period, a figure calculated to boost the ratio of public works outlays to projected GNP to over 7 percent (see JEI Report No. 26B, July 6, 1990). The public investment spending target for the next decade represents a sharp increase over the Y274 trillion ($2 trillion) spent during the last 10 years. To achieve the Y430 trillion goal, public works spending will have to grow about 6.1 percent annually. Viewed in terms of the 4.75 percent average annual expansion predicted in the government's current five-year economic plan (covering FY 1988 through FY 1992) and the past decade's average annual increase of 1.2 percent, the

magnitude of Japan's challenge becomes clear. Accordingly, the Finance Ministry submitted along with the FY 1991 budget a revised five-year public works spending plan that shows solid increases in all categories (see Table 7).

• Budget Practices - The private sector long has urged the government to eliminate budget structures that hide the true size of the deficit and generally make the fiscal blueprint hard to read. The general account budget, FILP and a host of special accounts are woven into an intricate web of financial flows. In some cases it is as if money disappears into a special account only to reemerge years later when it is needed. Or funds appear to flow from an account without an apparent source of income. Funds from the sale of government-owned shares of Nippon Telegraph and Telephone Corp., for example, continue to be included in revenue calculations despite no sale having taken place since 1989. Essentially the government is borrowing from and lending to itself without explaining all the transactions to outsiders. Better information will lead to better decisions, at least from the private sector's point of view.

• Financial Liberalization - Tokyo's program to restructure domestic financial markets poses many tough questions. Deregulation of interest rates, for example, probably will push up the average cost of new government bond issues and the refinancing of old ones. The restructuring of the postal savings system, which eventually must become part of the reform effort, will force major changes in FILP funding.

• Pension Fund Reform - Perhaps more important than changes involving the postal savings system are revisions to government pension and trust funds, which constitute the bulk of monies for FILP spending. If MOF's Trust Fund Bureau must earn higher returns to remain competitive with private trust funds, for example, FILP projects increasingly may become unattractive investments.

• Special Nontax Revenues - Japanese fiscal planners cannot continue to count on the revenue windfall from the sale of government-held shares of what formerly were public monopolies. Since FY 1988 sales of NTT shares have been penciled in to add an extra Y1.3 trillion ($9.6 billion) a year to public works spending, but public disenchantment with high-priced shares and volatile equity markets have forced the government to postpone new offerings or accept much lower prices (see JEI Report No. 45B, November 30, 1990). Moreover, in the long run the limited number of shares the government owns or is planning to sell ultimately eliminates this revenue source. MOF has no concrete plans on how to replace these revenues.

• Special Funding Needs - Although no reasonable planner wants situations like the Persian Gulf crisis to become regular occurrences, the need for special appropriations likely will become a standard feature of Japanese fiscal planning as Tokyo accepts greater international responsibilities, particularly ones related to global economic development. MOF and the ruling Liberal Democratic Party had to pull out all the stops to find a politically acceptable way to fulfill Japan's pledge to provide nearly $9 billion more to assist its allies' efforts in the Persian Gulf. The one-shot solution included drawing down emergency reserve funds from Y150 billion ($1.1 billion) to just Y200 million ($1.5 million). Other recent pledges of support have gone for Eastern Europe's reconstruction, increased aid to Latin America and economic assistance to strife-torn Asian nations.

. . . Something Borrowed -- And MOF's Blue

As is the case with most budget makers, MOF's primary concerns relate to income not outlays. The ministry's predicament is highlighted by several recent developments.

Thanks to the second-longest postwar economic expansion, tax revenues exceeded the Finance Ministry's expectations for several years in a row in the second half of the 1980s. In FY 1990, however, the good times came to an end when equity markets tumbled and corporate profits stagnated. According to MOF data, receipts from personal income taxes have been only moderately below expectations. Far below projections have been the take from corporations, securities transactions and the 3 percent consumption tax. Responding to the revenue shortfall, MOF asked government agencies in mid-April to freeze a larger-than-normal percentage of administrative costs from the very start of the fiscal year. Under past informal austerity guidelines the ministry had requested that supplementary budget requests, which cover the final quarter of the fiscal year, reflect a freeze of 7 percent of every agency's administrative expenses. The percentage for FY 1991 will be set sometime in May when revenue figures for full-year FY 1990 are known. While such steps certainly will help, only so much ink can be squeezed from the budget before essential functions are impaired.

The government's attention, therefore, has turned to the revenue side of the budget equation. As is usually the case, however, nonrevenue concerns have a significant impact on tax questions. For example, the cabinet's proposed tax changes for FY 1991 all will reduce tax receipts but promote other goals, such as encouraging families to have children or helping first-time home buyers. Nonfinancial considerations actually are the dominant features of tax questions currently being debated in Japan.

• Land Tax Reform - The government expects to win with surprising ease Diet approval of a package of new land taxes that will go into effect as of January 1, 1992. In the first year of operation property owners will pay a tax of 0.2 percent of the assessed value of holdings worth Y1 billion ($7.4 million) or more, with the rate rising to 0.3 percent the second year. To make the bill politically acceptable numerous caveats were attached, such as: the tax rate cannot be revised for five years; small businesses (defined as companies capitalized at less than Y100 million or $740,740) will be exempt if their property is worth less than Y1.5 billion ($11.1 million); parcels with an assessed value of less than Y30,000 per square meter ($20.65 per square foot) are exempt; and any property used for public purposes (such as hospitals and schools) also will be exempt. Critics contend that these loopholes will limit the new tax's scope to about 50,000 individual and corporate taxpayers and thus will generate only about Y150 billion ($1.1 billion) a year in revenue. To win support for the bill, the LDP attached an appendix calling for a review of the tax after three years and promising a cut in income taxes. Opposition parties, which criticized the bill as being soft on business, are likely to support it in the upper house since its purported goal is to address inappropriate land use (see JEI Report No. 28A, July 20, 1990).

• Consumption Tax Reform - The 3 percent consumption tax created a political firestorm when the LDP tried to introduce it in 1988. Capitalizing on popular disdain for the tax, opposition parties held up passage of the general account budget in 1988, 1989 and 1990. The first two years' impasses failed to prevent implementation of the tax, so the opposition tried last year

to drastically reform it. Processing of the current fiscal year's budget, in contrast, was almost completely free of acrimony on this issue. Although debate over Persian Gulf assistance overshadowed all other issues, the LDP and opposition parties tacitly had agreed to put reform of the consumption tax on the back burner for this year (see JEI Report No. 15B, April 19, 1991).

As popular interest in the tax has waned, so has the determination of opposition parties weakened. This does not mean that the issue simply will vanish. On the contrary, the Social Democratic Party of Japan announced in late April its ideas for amending the tax. These include: requiring businesses to file tax reports quarterly rather than biannually; further differentiating tax rate categories from the current two (which make 80 percent or 90 percent of sales subject to the tax) to four; reducing the tax's burden on selected groups; and replacing lost revenues by broadening commodity taxes. The proposed rate change would involve taxing between 60 percent and 90 percent of the goods and the services subject to the tax; depending on the type of business, increments would come in 10 percentage points. The SDPJ hopes to introduce a reform bill in the current Diet session, which ends May 8. The LDP has yet to respond to the proposal, but there are grounds for compromise since the measure is similar to the LDP's reform suggestions.

Conclusion

The rapid elimination of borrowing to finance current government operations underscores the Finance Ministry's strong position within the government. Fiscal austerity has not been a popular policy with other ministries or with many influential domestic political groups and foreign allies. Yet, while pursuing a balanced general account budget, Tokyo has been able to expand financial support for defense and foreign aid. More demands are in the offing. Added in FY 1991 to MOF's already full slate of policy-related funding categories was Tokyo's SII promise to increase public works and raise the standard of living. Jousting between the LDP and opposition parties over tax issues may poke some holes in MOF analysts' fiscal plans but should not lead to major changes.

Complicating MOF's fiscal planning are forces beyond its control. Foreign pressure, financial market restructuring and unpredictable equity markets can upset carefully laid schemes. Perhaps the biggest headache is the apparent end of tax windfalls as the economy slows. Pressure from the private sector for the government to institute a stimulative fiscal policy has not yet developed, mainly because most observers feel the current slowdown is a result of a tight monetary policy, not a restrictive fiscal policy stance. If the economy continues to lose momentum, however, Tokyo may be forced to further bolster public works spending, putting MOF's position on new borrowing to the test. Even if no clamor arises for the government to stimulate the economy through higher spending, the prospective drop in tax revenues is sure to pressure MOF's existing budget plans. Having clung for so long to the totem of fiscal austerity, it is not clear how the ministry will respond to a new economic and political environment.

For further information, contact Jon Choy.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Table 1: Japan's General Account Expenditures (Revised), FY 1987-FY 1991*

(in billions of yen and percent change)

	FY 1987		FY 1988		FY 1989		FY 1990		FY 1991**	
Total Expenditures	Y58,214.2	8.2%	Y61,851.7	6.3%	Y66,311.9	7.2%	69,651.2	5.0%	Y70,347.4	6.2%
Social Security	10,321.8	2.3	11,801.4	14.3	12,474.2	5.7	11,544.6	-7.5	12,212.2	5.1
Public Assistance	1,105.2	-0.5	1,062.0	-3.9	1,080.6	1.8	1,050.8	-2.8	1,074.1	-3.1
Social Welfare	2,033.2	2.8	2,146.3	5.6	2,309.7	7.6	2,446.8	5.9	2,591.6	7.7
Social Insurance	6,310.2	2.8	7,732.3	22.5	8,203.4	6.1	7,204.8	-12.2	7,599.6	5.6
Health Services	512.3	3.0	500.7	-2.3	526.4	5.3	561.8	6.7	608.6	8.9
Unemployment Compensation	361.0	-1.8	360.2	-1.2	354.1	-1.7	280.5	-20.8	338.4	-2.5
Education and Science	5,063.7	3.6	4,982.0	-1.6	5,075.3	1.9	5,359.4	5.6	5,394.4	5.5
Compulsory Education	2,392.9	-0.9	2,463.5	3.0	2,475.5	0.5	2,642.6	6.8	2,638.2	6.2
Transfer to School Account	1,180.1	8.9	1,124.4	-4.7	1,184.8	5.4	1,264.3	6.7	1,265.9	5.5
Science and Technology Promotion	473.5	24.0	426.6	-9.9	453.9	6.4	474.2	4.5	507.4	6.7
School Facilities	354.6	1.3	283.3	-20.1	262.7	-7.3	244.3	-7.0	248.6	1.9
School Aid	580.9	0.9	601.0	3.5	615.4	2.4	650.3	5.7	647.6	3.6
Student Loans	81.7	1.5	83.3	2.0	83.0	-0.4	83.7	0.8	86.7	3.9
Public Works	7,428.0	6.9	6,683.0	-10.0	7,398.9	10.7	7,013.2	-5.2	6,589.7	6.1
Erosion and Flood Control	1,221.9	10.9	1,059.4	-13.3	1,080.6	2.0	1,087.3	0.6	1,146.9	5.6
Road Improvement	1,983.8	8.6	1,744.1	-12.1	1,782.6	2.2	1,789.2	0.4	1,900.0	6.3
Harbors and Airports	563.7	9.0	497.1	-12.8	511.5	2.9	515.0	0.7	544.9	5.9
Housing	964.4	2.6	930.3	-3.5	1,539.2	65.5	930.9	-39.5	808.4	5.8
Social Infrastructure	1,106.1	11.8	942.6	-14.8	954.9	1.3	957.4	0.3	1,034.5	8.1
Agricultural Infrastructure	963.7	8.7	852.4	-11.5	867.8	1.8	870.5	0.3	909.8	4.6
Forestry and Industrial Water Supplies	181.2	6.3	163.0	-10.0	169.1	3.7	157.8	-1.5	165.8	5.1
Disaster Reconstruction	431.6	-14.3	483.8	12.1	482.3	-0.3	694.7	44.0	68.2	2.2
Reserves	11.8	3.6	10.4	-11.9	10.9	4.8	10.6	0.2	11.2	5.3
Pensions	1,895.6	2.5	1,879.8	-0.8	1,855.7	-1.3	1,837.4	-1.0	1,808.4	-1.6
Civil Servants	122.2	0.7	118.1	-3.4	111.8	-5.3	107.8	-3.6	104.7	-2.9
Veterans	1,606.9	2.8	1,599.0	-0.5	1,588.5	-0.7	1,580.5	-0.5	1,560.8	-1.2
Other Pensions	157.6	1.1	154.4	-2.0	147.4	-4.5	141.0	-4.3	134.7	-4.6
Administrative Costs	8.9	-14.3	8.4	-5.6	8.0	-4.8	8.0	-0.2	8.1	1.7
Local Finance	11,086.2	13.9	13,031.2	17.5	14,964.7	14.8	15,930.8	2.8	15,974.9	4.6
Local Allocation Tax	11,086.2	13.9	13,031.2	17.5	14,964.7	14.8	15,930.8	2.8	15,974.9	4.6
Interest Support and Special Grants	0.0	00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Debt Service	11,851.4	11.1	12,030.7	1.5	12,089.8	0.5	14,449.3	19.5	15,834.3	10.8
Defense	3,507.8	5.1	3,728.3	6.3	3,969.9	6.5	4,254.1	7.2	4,287.0	3.1
Economic Cooperation	661.3	10.1	714.4	8.0	750.6	5.1	802.0	6.8	845.9	7.8
Small Business Assistance	263.2	16.6	257.6	-2.1	240.5	-6.6	240.9	0.2	195.0	0.3
Energy Support	496.8	-12.9	458.4	-7.7	546.1	19.1	547.1	0.2	592.1	8.1
Food Agency Account	688.2	12.1	480.4	-30.2	459.2	-4.4	404.6	-11.9	373.2	-5.6
Miscellaneous	4,292.2	4.6	4,304.6	0.3	4,987.1	15.9	5,642.7	13.1	4,355.3	4.6
Salary Increase Reserve	—		—		—		—		135.0	
Reserves	200.0	0.0	200.0	0.0	200.0	0.0	325.0	62.5	150.0	-57.1
Industrial Investment Special Account	458.0	100.0	1,300.0	183.8	1,300.0	0.0	1,300.0	0.0	1,300.0	0.0
Persian Gulf Contribution***	—		—		—		--		300.0	

*Revised budget figures include the supplementary budget.
**Initial budget. Percent changes are based on the initial budget for FY 1990.
***This amount actually was disbursed in FY 1990.

Source: Ministry of Finance

Table 2: Japan's Discretionary General Account Spending (Revised), FY 1987-FY 1991*

(in billions of yen and percent change)

	FY 1987		FY 1988		FY 1989		FY 1990		FY 1991**	
Total Expenditures	Y58,214.2	8.2%	Y61,851.7	6.3%	Y66,311.9	7.2%	Y69,651.2	5.0%	Y70,347.4	6.2%
Minus										
Debt Service and Transfers to Local Governments	22,937.6	12.4	25,061.9	9.3	27,054.5	8.0	30,380.1	12.3	33,109.2	7.3
Equals										
Discretionary Spending	35,276.5	5.5	36,789.8	4.3	39,257.4	6.7	39,271.1	0.0	37,238.2	5.3

*Revised budget figures include the supplementary budget.
**Initial budget. Percent changes are based on the initial budget for FY 1990.

Source: Ministry of Finance

Table 3: Japan's General Account Revenues (Revised), FY 1987-FY 1991*

(in billions of yen and percent change)

	FY 1987		FY 1988		FY 1989		FY 1990		FY 1991**	
Total Revenues	Y58,214.2	8.2%	Y61,851.7	6.2%	Y66,311.9	7.2%	Y69,651.2	5.0%	Y70,347.4	6.2%
Tax and Stamp Revenues	43,087.0	9.3	48,106.0	11.7	54,227.0	12.7	59,131.0	9.0	61,772.0	6.5
Direct Taxes	31,703.0	7.6	36,284.0	14.5	41,541.0	14.5	44,842.0	7.9	47,051.0	9.1
Income Taxes	16,188.0	-1.3	16,928.0	4.6	20,057.0	18.5	24,345.0	21.4	25,738.0	20.4
Withheld	12,303.0	-5.2	12,675.0	3.0	15,020.0	18.5	18,280.0	21.7	20,095.0	-6.0
Self-Assessed	3,885.0	13.8	4,253.0	9.5	5,037.0	18.4	6,065.0	20.4	5,643.0	13.6
Corporate Taxes	13,722.0	17.0	17,712.0	29.1	19,577.0	10.5	18,637.0	-4.8	19,267.0	-2.3
Inheritance and Gift Tax	1,793.0	32.7	1,644.0	-8.3	1,907.0	16.0	1,860.0	-2.5	2,046.0	0.0
Indirect Tax Revenues	11,384.0	14.2	11,822.0	3.9	12,686.0	7.3	14,289.0	12.6	14,721.0	-2.0
Liquor Tax	2,042.0	3.4	2,066.0	1.2	1,801.0	-12.8	1,914.0	6.3	2,000.0	4.5
Tobacco Excise Tax	1,012.0	2.6	1,011.0	-0.1	932.0	-7.8	957.0	2.7	987.0	3.1
Gasoline Tax	1,596.0	1.5	1,314.0	-17.7	1,365.0	3.9	1,423.0	4.2	1,503.0	5.6
Petroleum Tax	190.0	11.1	290.0	52.6	438.0	51.0	453.0	3.4	490.0	8.2
Consumption Tax	n.a.	n.a.	n.a.	n.a.	3,618.0	100.0	4,870.0	34.6	4,944.0	1.5
Commodity Tax	1,686.0	3.6	1,906.0	13.1	0.0	-100.0	0.0	0.0	0.0	0.0
Securities Transaction Tax	1,766.0	80.0	1,800.0	1.9	1,234.0	-31.4	1,020.0	-17.3	1,020.0	0.0
Motor Vehicle Tonnage Tax	486.0	-4.0	532.0	9.5	559.0	5.1	628.0	12.3	640.0	1.9
Customs Duty	599.0	25.3	703.0	17.4	759.0	8.0	864.0	13.8	850.0	-1.6
Other	201.0	-7.1	227.0	12.9	131.0	-42.3	134.0	2.3	139.0	3.0
Stamp Revenue	1,806.0	23.5	1,973.0	9.2	1,849.0	-6.3	2,026.0	9.6	2,148.0	6.0
Monopoly Profits	6.0	-21.1	8.0	33.3	7.7	-3.8	8.3	7.8	8.6	3.6
Public Enterprise Receipts	17.5	4.8	16.7	-4.6	16.9	1.7	17.6	4.1	19.0	8.0
Sale of Public Properties	180.6	34.3	126.1	-30.2	173.3	37.5	128.5	-25.9	127.2	25.8
Miscellaneous	1,586.7	-30.7	1,353.5	-14.7	2,385.4	-10.1	2,505.3	5.0	2,976.1	22.4
Public Bonds	10,539.0	-8.3	7,967.0	-24.4	7,111.0	-10.8	7,312.0	2.8	5,343.0	-4.4
Construction	6,880.0	20.7	6,196.0	-9.9	6,430.0	3.8	7,312.0	2.8	5,343.0	-4.4
Deficit-Financing	3,659.0	-36.9	1,771.0	-51.6	681.0	-61.5	0.0	-100.0	0.0	0.0
Carryover Surplus	2,339.4	430.1	2,974.6	27.2	2,390.6	-19.6	548.6	-76.5	101.9	-81.4

*Revised budget figures include the supplementary budget(s).
**Initial budget. Percent changes are based on the initial budget for FY 1990.

Source: Ministry of Finance

Table 4: Uses and Sources of Japan's Fiscal Investment and Loan Program Outlays (Initial), FY 1987-FY 1991

(in billions of yen and percent change)

	FY 1987		FY 1988		FY 1989		FY 1990		FY 1991	
Total Outlays	Y27,081.3	7.1%	Y29,614.0	9.4%	Y32,270.5	9.0%	Y34,572.4	7.1%	Y36,805.6	6.5%
Housing	6,328.2	8.1	6,921.5	9.4	7,460.6	7.8	8,365.9	12.1	9,474.5	13.3
Other Social Infrastructure	3,998.7	8.2	4,450.9	11.3	4,371.3	-1.8	4,222.0	-3.4	4,293.3	1.7
Welfare	627.7	0.3	661.8	5.4	736.0	11.2	851.9	15.7	1,026.1	20.4
Education	784.1	15.6	637.6	-18.7	520.2	-18.4	554.1	6.5	582.4	5.1
Small Business	3,985.6	7.7	4,030.6	1.1	4,176.4	3.6	4,337.8	3.9	4,494.5	3.6
Agriculture	907.8	0.6	979.4	7.9	924.4	-5.6	876.0	-5.2	908.2	3.7
Land Conservation and Disaster Work	493.0	16.6	409.8	-16.9	357.9	-12.7	328.5	-8.2	330.6	0.6
Roads	2,363.0	16.7	2,512.1	6.3	2,576.8	2.6	2,700.1	4.8	2,983.2	10.5
Transportation and Communications	2,264.1	12.4	2,229.9	-1.5	2,361.6	5.9	2,304.1	-2.4	1,468.1	-36.3
Regional Development	657.7	16.2	652.2	-0.8	676.6	3.7	682.5	0.9	709.0	3.9
Industry and Technology	630.9	-0.8	687.2	8.9	758.7	10.4	796.5	5.0	937.7	17.7
Foreign Trade and Economic Cooperation	690.5	-33.2	1,171.0	69.6	1,420.0	21.3	1,603.0	12.9	1,898.0	18.4
Cash Management	3,350.0	n.a.	4,270.0	27.5	5,930.0	38.9	6,950.0	17.2	7,700.0	10.8
Total Revenues	Y31,081.3	14.5%	Y33,114.0	6.5%	Y34,570.5	4.4%	Y36,572.4	5.8%	Y37,405.6	2.3%
Industrial Investment Special Account	144.3	134.6	91.2	-36.8	85.2	-6.6	64.1	-24.8	65.7	2.5
Trust Fund Bureau Fund	24,595.8	18.6	26,206.6	6.6	26,871.3	2.5	28,453.3	5.9	29,134.9	2.4
Postal Savings	7,900.0	12.9	7,900.0	0.0	8,500.0	7.6	7,200.0	-15.3	8,800.0	22.2
Pension Contributions	4,450.0	3.5	3,500.0	-21.3	4,310.0	23.1	5,540.0	28.5	6,430.0	16.1
Other Revenues	12,245.8	29.7	14,806.6	20.9	14,061.3	-5.0	15,713.3	11.7	13,904.9	-11.5
Postal Life Insurance Fund	3,941.2	25.3	4,409.4	11.9	5,614.0	27.3	6,055.0	7.9	6,305.0	4.1
Government-Guaranteed Bonds and Borrowings	2.400.0	-25.2	2,406.8	0.3	2,000.0	-16.9	2,000.0	0.0	1,900.0	-5.0

Source: Ministry of Finance

Table 5: Japan's Current General Account Budget Deficit, FY 1970-FY 1991

(in billions of yen and percent of total spending)

Fiscal Year	Initial Budget								Revised Budget	
	Construction Bonds		Deficit Bonds		Total Bonds		Debt Service		Total Bonds	
1970	Y430	5.4%	0	n.a.	Y430	5.4%	Y290.9	3.7%	Y347	4.2%
1971	430	4.6	0	n.a.	430	4.6	319.3	3.4	1,220	12.6
1972	1,950	17.0	0	n.a.	1,950	17.0	455.4	4.0	2,310	19.1
1973	2,340	16.4	0	n.a.	2,340	16.4	704.5	4.9	1,810	11.9
1974	2,160	12.6	0	n.a.	2,160	12.6	862.2	5.0	2,160	11.3
1975	2,000	9.4	0	n.a.	2,000	9.4	1,039.4	4.9	5,480	26.3
1976	3,525	16.0	Y3,750	19.3%	7,275	29.9	1,664.7	6.9	7,375	29.9
1977	4,430	11.9	4,050	17.8	8,480	29.7	2,348.7	8.2	9,985	34.0
1978	6,050	13.6	4,935	18.4	10,985	32.0	3,222.7	9.4	11,285	32.8
1979	7,215	12.5	8,055	27.1	15,270	39.6	4,078.4	10.6	14,050	35.4
1980	6,785	11.5	7,485	22.0	14,270	33.5	5,310.4	12.5	14,270	32.7
1981	6,785	11.8	5,485	14.4	12,270	26.2	6,654.2	14.2	12,900	27.6
1982	6,516	11.5	3,924	9.5	10,440	21.0	7,829.9	15.8	14,345	30.2
1983	6,365	9.9	6,980	16.6	13,345	26.5	8,192.5	16.3	13,486	26.1
1984	6,225	9.8	6,455	15.2	12,680	25.0	9,155.1	18.1	12,781	24.5
1985	5,950	9.4	5,730	12.8	11,680	22.2	10,224.1	19.5	12,308	22.8
1986	5,700	8.9	5,246	11.3	10,946	20.2	11,319.5	20.9	11,495	21.4
1987	5,520	10.2	4,981	9.2	10,501	19.4	11,333.5	20.9	10,539	18.1
1988	5,690	10.0	3,151	5.6	8,841	15.6	11,512.0	20.3	7,967	12.9
1989	5,780	9.6	1,331	2.2	7,111	11.8	11,664.9	19.3	7,111	10.7
1990	5,593	8.4	0	0.0	5,593	8.4	14,449.3	20.7	7,312.0	10.5
1991	5,348	7.6	0	0.0	5,348	7.6	15,834.3	22.5	n.a.	n.a.

Source: Bank of Japan and Ministry of Finance

Table 6: Japan's Cumulative General Account Budget Deficit, FY 1970-FY 1990

(in billions of yen and percent of nominal gross national product)

Fiscal Year	Construction Bonds		Deficit Bonds		Refinancing Bonds		Total Bonds	
1970	Y2,642.2	3.5%	Y168.8	0.2%	0.0	0.0	Y2,811.0	3.7%
1971	3,851.1	4.7	100.9	0.1	0.0	0.0	3,952.0	4.8
1972	5,818.5	6.0	0.0	0.0	0.0	0.0	5,818.5	6.0
1973	6,943.5	6.0	0.0	0.0	Y606.8	0.5%	7,550.3	6.5
1974	8,403.6	6.1	0.0	0.0	1,254.8	0.9	9,658.4	7.0
1975	11,178.4	7.3	2,116.9	1.4	1,677.7	1.1	14,973.0	9.8
1976	14,530.1	8.5	5,492.8	3.2	2,053.6	1.2	22,076.5	12.9
1977	19,280.8	10.1	10,253.5	5.4	2,367.9	1.2	31,902.2	16.8
1978	24,964.7	12.0	14,647.2	7.0	3,003.7	1.4	42,615.6	20.4
1979	32,181.7	14.3	21,065.7	9.3	3,003.7	1.3	56,251.1	25.0
1980	38,953.5	15.9	28,257.1	11.5	3,299.1	1.3	70,509.7	28.8
1981	45,149.7	17.4	32,916.3	12.7	4,207.3	1.6	82,273.3	31.7
1982	48,589.4	17.8	40,330.1	14.8	7,562.5	2.8	96,482.0	35.4
1983	51,366.3	18.1	47,059.9	16.6	11,268.4	4.0	109,694.6	38.6
1984	53,447.9	17.6	53,074.5	17.5	15,171.0	5.0	121,693.4	40.2
1985	52,830.3	16.4	57,306.0	17.8	24,295.0	7.6	134,431.3	41.8
1986	52,745.0	15.8	58,846.3	17.6	33,535.2	10.0	145,126.5	43.4
1987	51,923.4	14.8	56,803.0	16.2	43,082.8	12.3	151,809.2	43.2
1988	49,307.3	13.2	54,365.5	14.6	53,107.4	14.3	156,780.3	42.1
1989	48,732.6	12.0	47,825.5	11.8	64,351.8	15.8	160,910.0	39.6
1990*	47,076.6	10.7	40,614.6	9.3	74,534.8	17.1	162,226.0	37.2

*As of end of February, 1991. Percent of GNP based on projected FY 1990 nominal growth of 7.4 percent.

Sources: Bank of Japan and Ministry of Finance

Table 7: Revised FY 1991-FY 1995 Public Works Plan

(housing in thousands of units; all others in millions of yen)

	Original	Revised
Housing	6,700	7,300
Airports	Y1,920	Y3,190
Harbors	4,400	5,700
Water Supply	12,200	16,500
Sewage Treatment Facilities	1,910	2,830
Parks	3,110	5,000
Pedestrian Safety	1,485	2,015
Sidewalks	1,350	1,850
Other	135	165

Source: Ministry of Finance

NOTE

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